

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2001-349

July 3, 2001

CONSUMERS MAINE WATER COMPANY  
Request for Approval of Reduction  
In Capital (\$910)

ORDER APPROVING  
REORGANIZATION AND  
REDUCTION IN CAPITAL

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

---

**I. SUMMARY**

On May 25, 2001, Consumers Maine Water Company (CWMC or the Company) filed a request for Commission approval of a reduction in capital and for certain accounting treatment of miscellaneous related expenses. This Order approves the Company's request.

**II. BACKGROUND & DECISION**

Within its request for approval of a reduction in capital, CMWC specifically requests approval: (1) to redeem 182 minority common shares currently outstanding at an estimated book value of \$65.00 per share; (2) to call and redeem all 2,750 of its outstanding preferred shares; and (3) for certain accounting and regulatory treatment of the associated costs and call premiums for the items noted above as well as call premiums and unamortized issuance expenses on its Series F Bonds which the Company plans to call on or around August 1, 2001. As proposed, CMWC's total capital accounts will be reduced by approximately \$66,000 or 0.3% below the level authorized for in rate proceedings concluded for several of its divisions in the previous 12 months. The total one-time cost of the proposed capital change, including transactions costs, associated call premiums and unamortized debt issuance expenses for its Series F Bonds is just over \$284,000. CMWC proposes to recover these expenses over a 20-year amortization period, which coincides with the remaining life of the Series F Bonds. Given certain short-term interest rate assumptions and a current all-in fixed rate of 10.28% on the Series F Bonds, the Company's expected net savings will exceed \$75,000 annually or \$1.5 million over the next 20 years. These savings can be passed on to ratepayers in any future rate cases for CMWC's Maine divisions.

CMWC estimates the total premium associated with the buyout of the 2,750 preferred shares to be \$16,750, and the Company proposes to recover this amount over 20 years. The Series F Bonds, issued with a 30-year maturity in 1991, are eligible for redemption for the first time on August 1, 2001. Given the currently high 10.28% all-in rate, the Company wishes to call these bonds, despite the existence of a call premium of 7.5% over par value on the remaining \$2.4 million in bonds. This premium amounts to \$180,000 plus approximately \$87,000 in unamortized transaction expenses

associated with the original issuance of these bonds. Rather than incurring additional issuance expenses associated with issuing new long-term debt, CMWC proposes issuing \$2.6 million in short-term debt at a nominal rate of 6.0% as a “replacement” source of capital.<sup>1</sup> If the total amount (roughly \$284,000) of premiums plus transactions costs is amortized over 20 years and those costs are considered “flotation costs” for \$2.6 million in short-term debt, the “all-in” cost of short-term debt is increased by between 55 and 75 basis points (or to 6.55% to 6.75%). CMWC noted that it has received indications that its short-term borrowing rate would be in the area of 150 basis points over 30-day LIBOR (London Inter-Bank Offering Rate). Given a recent 30-Day LIBOR rate of 3.75%<sup>2</sup>, CMWC may actually find its current short-term borrowing rate to be less than 6.00% and its initial savings to be greater.

We recognize that short-term rates are somewhat volatile. However, for the annual savings in any one year to be overwhelmed by interest charges on new short-term debt, CMWC’s nominal short-term borrowing rate would have to rise to roughly 9.00%. Based on a borrowing margin of 150 basis points, the current 30-Day LIBOR index would then have to double from current levels to 7.50% to produce a 9.00% nominal short-term borrowing rate for CMWC. Statistics provided by the British Bankers Association indicate that the 30-Day LIBOR index has not reached a level near 7.50% since January 1991. We would expect the Company to continually monitor its short-term borrowing position and future cash flow requirements and to use prudent judgment in deciding between short-term and long-term debt instruments in the future in order to protect ratepayers from excessive interest rate volatility.

Regarding the regulatory and accounting treatment of call premiums on preferred shares and Series F Bonds and unamortized issuance expenses associated with the Series F Bonds, we find the requested 20-year amortization period for these items to be reasonable. In the past, we have allowed other utilities (most recently Maine Public Service Company and the Kennebec Water District) similar treatment for these types of expenses. Federal Energy Regulatory Commission (FERC) accounting rules also allow utilities the choice of either amortizing such expenses over the life of a new debt instrument when there is a refinancing or over the remaining scheduled life of a retired debt instrument in the event that there is no refinancing. Accounting statement FAS71 concurs with the FERCs view on this issue. In this case, there is no long-term permanent refinancing taking place and using the remaining 20-year life of the Series F Bonds as an amortization period therefore seems appropriate in our view.

The proposed reduction in capital does not result in the Company disinvesting its utility system or increasing its financial risk and therefore its cost of capital. Nor does the proposed reduction in common equity capital cause the Company’s common equity ratio to decrease below what we consider to be reasonable and customary in the water

---

<sup>1</sup> It should be noted that by definition, short-term debt carries a maturity date of less than 12 months, and therefore does not require prior Commission approval. The Company proposes to use existing unsecured revolving credit lines with either Fleet Bank or Mellon Bank that meet that definition; we therefore do not need to explicitly approve that part of CMWC’s proposed “recapitalization.”

<sup>2</sup> June 28, 2001, *Wall Street Journal*.

utility industry. This is an issue we recently considered in the rate cases involving CMWC's Camden/Rockland and Millinocket divisions, in which we allowed the Company a common equity ratio of 49.7% (Docket No. 2000-96, *Consumers Maine Water Company – Millinocket Proposed Rate Change* and Docket No. 2000-175, (2/4/00), *Consumers Maine Water Company – Camden/Rockland Proposed Rate Change*, Part II Order at 31-32, (9/26/00)). CMWC represents that immediately following the proposed transactions, its actual common equity ratio will be almost identical to that allowed in the recent rate cases at 49.8% and therefore its financial risk profile will remain consistent with our decision in those cases.

In approving this request, the Commission does not imply approval of the Company's current or projected capital structure or its current or projected cost of capital for ratemaking purposes. Furthermore, this Order does not limit or restrict the powers of the Commission in determining a capital structure or cost rate in future proceedings.

Accordingly, we

### ORDER

1. That Consumers Maine Water Company is authorized to repurchase and retire 182 of its common shares at a price equal to book value at the redemption date and to redeem and retire 2,750 shares of outstanding preferred stock at par value plus a total cumulative premium of \$16,750.
2. That the Company is allowed to recover in rates call premiums and unamortized issuance expenses totaling \$284,369 associated with the transactions described herein over a period of 20-years following the closing of these transactions.
3. That the Company will report its actions pursuant to this Order to the Commission within 60 days of the closing of these transactions.

Dated at Augusta, Maine, this 3<sup>rd</sup> day of July, 2001.

BY ORDER OF THE COMMISSION

---

Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:

Welch  
Nugent  
Diamond

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.